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## **RSC Policy Brief:**

# **Cap-and-Trade Proposals for Greenhouse Gas Emissions**

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**In light of increasing social pressures for lawmakers to legislate on global warming, the following information on the leading Democrat proposals might be useful.**

**Background:** According to the Competitive Enterprise Institute (CEI), there is no true scientific consensus that global warming now will cause catastrophic events in the future, and there is no scientific consensus that man is solely or even mostly responsible for the warming. However, there is such consensus that some sort of warming is occurring. CEI reports that “global average temperature is about 0.6° Celsius—or just over 1° Fahrenheit—higher than it was a century ago; atmospheric levels of carbon dioxide (CO<sub>2</sub>) have risen by about 30 percent over past 200 years; and carbon dioxide, like water vapor, is a greenhouse gas whose increase is likely to warm the Earth’s atmosphere.”

But CEI also notes that, “Scientists do not agree on whether: (1) we know enough to ascribe past temperature changes to carbon dioxide levels; (2) we have enough data to confidently predict future temperature levels; and (3) at what level temperature change might be more damaging than beneficial to life on Earth.”

Both James Hansen of NASA (who CEI calls “the father of greenhouse theory”) and Richard Lindzen of MIT (who CEI calls “the most renowned climatologist in the world”) agree that, even if nothing is done to restrict greenhouse gases, the world will only see a global temperature increase of about 1°C in the next 50-100 years—considerably less than the predictions of the United Nations’ Intergovernmental Panel on Climate Change (IPCC), which has predicted an increase as high as 6°C.

In regards to former Vice President Al Gore’s predictions of massive sea-level increases, the IPCC (widely seen as one of the most liberal entities on global warming) foresees sea-level rise of between 0.1 meters and 0.9 meters by the year 2100. As Nils-Axel Mörner of Stockholm University Points out, the Earth experienced a sea-level rise of 0.2 meters over the past century with no noticeable ill effects. There seems to be no scientific consensus as to the extent of sea-level increase that would result from the current rate of ice-sheet loss. For

instance, one researcher (Zwally) argues that it could take thousands of years for the sea to rise just one meter at the current ice-sheet loss rate.

In May 2007, NASA Administrator Michael Griffin told ABC News:

I have no doubt that a trend of global warming exists. I am not sure that it is fair to say that it is a problem we must wrestle with. To assume that it is a problem is to assume that the state of Earth's climate today is the optimal climate, the best climate that we could have or ever have had and that we need to take steps to make sure that it doesn't change. I guess I would ask which human beings—where and when— are to be accorded the privilege of deciding that this particular climate that we have right here today, right now is the best climate for all other human beings. I think that's a rather arrogant position for people to take.

Despite this lack of consensus on the cause and seriousness of global warming, one of the primary Democrat reactions to a perceived global warming crisis caused by man-made emissions has been proposing government-run “cap-and-trade” systems, as detailed below. “Cap-and-trade” refers to capping annual carbon (or carbon-equivalent greenhouse gas) emissions from commercial operations and allowing the trading of credits (or “allowances”) for such emissions among businesses.

Although the Democrat cap-and-trade systems would be run by the federal government, some private-sector cap-and-trade programs have begun to emerge nationwide. For example, the Chicago Climate Exchange (CCX) was created by grants from private foundations to bring companies and other entities (like universities) together to cap and trade greenhouse gas emissions. As CCX's website notes:

Through their CCX membership, the [member] organizations were first in the world to make legally binding commitments to reduce all six greenhouse gases, in the world's first multinational multi-sector market for reducing and trading greenhouse gases. CCX is a U.S. corporation, and today remains the only emissions reduction and trading system for all six greenhouse gases and the only operational emissions reduction and trading system in North America. CCX has nearly 300 Members from all sectors...worldwide.

To learn more about CCX, visit this website:

<http://www.chicagoclimatex.com/content.jsf?id=1>

**Democrat Proposals:** Two cap-and-trade bills have been introduced in the House in the 110<sup>th</sup> Congress thus far: the [Climate Stewardship Act](#) (H.R. 620, introduced by Rep. Olver of Massachusetts, 129 co-sponsors) and the [Safe Climate Act](#) (H.R. 1590, introduced by Rep. Waxman of California, 140 co-sponsors). Neither bill has been acted on by any House committee. The Climate Stewardship Act has a Senate companion bill ([S. 280](#), introduced by Senator Lieberman).

**Climate Stewardship Act.** The Climate Stewardship Act (H.R. 620) would direct the Administrator of the Environmental Protection Agency (EPA) to establish a National Greenhouse Gas Database consisting of:

- an inventory of greenhouse gas (GHG) emissions by specified entities that own or control a source of GHG emissions in the electric power, transportation, industrial, or

commercial sectors of the U.S. economy that emit more than 10,000 metric tons of GHGs per year; and

- a registry of GHG emission reductions and increased sequestration (capture of emissions before they are released into the atmosphere), applicable to both covered and noncovered entities.

H.R. 620 would also establish a program of tradable emissions allowances (the right to emit a certain unit of emissions), which would be capped in a declining fashion over time (as detailed in the bill—there would have to be a net 75.5% reduction in tradable allowances between 2012 and 2050).

[More specifically, tradable allowances permit companies to shuffle among themselves what they are allowed to emit in a year, without exceeding the overall cap. For example, if there is a 20-allowance cap for a town, divided evenly between the two companies in that town, the first company could buy two extra allowances from the second company in a year when the first company needs to emit more and the second company will emit less. In this example, the first company would be permitted to emit 12 units of GHGs, while the second company would be permitted to emit 8 units of GHGs. But the overall 20-allowance cap would not be breached, and total emissions would not be reduced. But, as the overall cap is reduced over time—for example, if the 20-allowance cap in the hypothetical town were reduced to 18 in the subsequent year—total emissions from that town would, theoretically, be reduced.]

Covered entities (which would include governmental entities), beginning in 2012, would have to submit to the Administrator one tradable allowance for every metric ton of GHGs emitted (subject to civil penalties for noncompliance). Allowances could be sold, exchanged, purchased, retired, borrowed, offset by credits from other countries, or otherwise used as authorized by this legislation, but would not be a property right. A newly established Climate Change Credit Corporation (CCCC) would receive, manage, buy, and sell the GHG allowances. Specific appropriations are not authorized.

H.R. 620 would instruct the Administrator to make allocations of allowances to covered entities and commercial sectors, as well as to the CCCC, providing initial allocations for early action and accelerated participation.

The CCCC would have to establish a program to distribute (unspecified) funds for:

- technology to facilitate compliance with this legislation;
- incentives for GHG emission reductions or net increases in sequestration on agricultural lands; and
- helping fish and wildlife adapt to climate change.

The Secretary of Commerce would have to report to Congress on the oceanic and coastal impacts of climate change and assist certain coastal states in adapting to climate change. Additionally, the Secretary of Commerce would have to submit a climate change adaptation plan to Congress and research the impact of climate change on low-income populations worldwide.

The Director of the Office of Science and Technology Policy would have to establish a program on adaptation technologies (as part of the Climate Technology Challenge Program) and perform regional infrastructure cost assessments of the impacts of climate change. Specific appropriations are not authorized.

Lastly, H.R. 620 would provide (unspecified) funding for states to develop and implement climate change impact mitigation plans.

Safe Climate Act: The Safe Climate Act (H.R. 1590) would direct the EPA to promulgate:

- targets for a 2% reduction in GHG emissions each year from 2010-2020;
- targets for a 5% reduction in GHG emissions each year from 2021-2050; and
- regulations requiring reductions to meet such targets, including by setting caps on the emissions of entities and sectors with the largest emissions, by issuing and authorizing trading of emission allowances, and by imposing penalties for excess emissions.

The bill would require affected federal agencies to each finalize a rule to carry out the National Academy of Sciences' and the National Research Council's recommendations for regulatory action needed to reduce atmospheric GHG concentrations or to explain reasons for declining to act.

The President would be directed to submit to Congress a plan for the distribution of emission allowances (including through auctions) and the use of proceeds (to be deposited in a Climate Reinvestment Fund) for specified goals, including mitigating the effects of energy cost increases and climate change. The EPA would have to ensure that emissions and allowances are accurately tracked, reported, and verified.

The emission reduction regulations could include additional requirements for any entity or sector, as well as performance standards, best management practices, and technology-based requirements for compliance. Standards for the reduction of GHG emissions from motor vehicles would have to follow a reduction schedule that is at least as fast as the standards adopted by the California Air Resources Board at its September 2004 hearing. The EPA would have to revise such standards in 2014 and every five years thereafter to further reduce emissions.

H.R. 1590 would direct the Secretary of Energy to:

- require, beginning in 2010, an annual increase in the percentage of electric energy generated from renewable sources that is sold at the retail level in the United States and to require such percentage to be at least 20% of the total electricity sold by 2020; and
- set end-user savings targets for retail electric-energy and natural gas suppliers.

The Secretary of Energy would be allowed to increase the required percentage of end-user savings for years after 2020 and allow suppliers to achieve the targets through a trading system.

Reports indicate that a cap-and-trade bill could be considered on the House floor before the end of this year.

**Conservative Concerns and Questions to Pose:** Conservative concerns about government-run cap-and-trade are numerous and significant. Some such concerns include, but are not limited to, the following:

- **Government Planning Scheme.** Government-run cap-and-trade is, by definition, a central economic planning scheme in which the government decides which industries and companies deserve more or fewer credits and what business factors and economic outputs are “necessary.” Lowering greenhouse gas emissions, especially in the short terms, means government-directed decreases in economic activity.
- **Stifles Private-Sector Innovation.** Government-run cap-and-trade stifles innovation since companies are artificially constrained in their economic activities, thereby dampening the incentives to create new products and services. As Jim Manzi wrote in *National Review* on June 25, 2007, “The loss of economic and technological development that would be required to eliminate literally all theorized climate-change risk would cripple our ability to deal with virtually every other foreseeable and unforeseeable risk, not to mention our ability to lead productive and interesting lives in the meantime.” Additionally, government-run cap-and-trade, like government-run anything, would dampen the incentives for developing private-sector cap-and-trade initiatives, which would be market-driven and thus more efficient.
- **Higher Consumer Energy Prices.** Because a scarcity of a high-demand product yields higher prices, government caps on energy production and usage would lead to higher energy prices. As CBO notes, “Regardless of how the allowances were distributed, most of the cost of meeting a cap on CO2 emissions would be borne by consumers who would face persistently higher prices for products such as electricity and gasoline.” Such price increases would be felt most harshly in poorer households, who spend a larger percentage of their incomes on energy.
- **Job Losses, Lower Wages, and Stock Devaluation.** As CBO noted as a corollary from the previous bullet-point, “As some parts of the energy sector and various energy-intensive industries adjusted to a decline in demand for their goods, current workers and investors in those industries would experience costs in the form of lower wages, job losses, and reduced stock values.”
- **Potential for Corruption.** Government-run cap-and-trade has serious potential for corruption, since for example, local officials would have political (and perhaps monetary) incentives to help their local businesses get more credits. And businesses in the aggregate may have powerful economic incentives to get more credits than their designated allotment in a given year.
- **Windfall for Traders.** Government-run cap-and-trade naturally yields substantial sums for traders. This may be profitable for them, but this is money that could have been put into innovation and investment.
- **Not Likely to Actually Reduce Emissions.** Government-run cap-and-trade has never been shown to actually reduce greenhouse gas emissions, yet isn't that the stated goal of cap-and-trade proponents? Just because the government requires a certain decrease in emissions within a certain timeframe does not mean such decreases can occur in the

real world. As the Competitive Enterprise Institute notes, the European Union has a government-run cap-and-trade regime right now, and its greenhouse gas emissions are increasing *much* faster than those in the United States.

- No Guarantee that Reducing U.S. Emissions Stops Global Warming. Scientists agree that global warming is caused by a multitude of factors, some natural and perhaps some man-made. U.S. emissions are a small fraction of carbon dioxide in the atmosphere, and China's and other developing countries' emissions are increasing dramatically faster than are those of the United States.

As this last bullet point implies, conservative concerns about cap-and-trade are also a function of larger concerns about the global warming issue. Many questions central to global warming exist and remain unanswered by any meaningful scientific consensus. Some such questions include, but are not limited to, the following:

- Is significant global warming actually happening?
- Why? What's causing it?
- On what scale? Is global warming an imminent crisis or a manageable risk?
- How is this warming different from previous warming periods in Earth's history?
- Are climate changes inherently bad?
- Is this latest warming causing harm to the health and welfare of the U.S., of the world?
- Do the benefits of warming (such as longer growing seasons) outweigh the costs of warming (such as receding beaches)?
- Why do some people think that humans and the swift pace of modern technology won't be able to adapt to climate change?
- Why do we think that the Earth's own adaptations won't stop runaway-warming? *(For example, more carbon dioxide in the atmosphere means faster and more robust plant growth, which means more carbon dioxide being pulled out of the atmosphere by plants.)*
- Can human behavior changes stop the warming, if we even want to?
- What is the ideal climate? What is the ideal average temperature of the Earth?
- Why do we expect the Earth to have no variations in average temperature when we know it has experienced some in the past and we know that such temperature variations exist on other planets and on the sun itself?
- Why do we think we can predict the planetary climate decades in advance when we cannot even accurately predict local rainstorms a week in advance?
- Similarly, why do we think we can change the climate of the whole planet when we cannot even change local weather?

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